

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 L-03 FRB-03 OMB-01
ITC-01 SP-02 AGRE-00 AID-05 CIAE-00 COME-00
INR-10 IO-13 LAB-04 NSAE-00 OIC-02 SIL-01 STR-07
TRSE-00 CEA-01 SS-15 DODE-00 NSCE-00 SSO-00
USIE-00 INRE-00 /099 W
-----087099 221800Z /41

O R 211145Z MAR 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC IMMEDIATE 6386
INFO AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 ISLAMABAD 2838

C O R R E C T E D C O P Y (TEXT)

DEPT FOR E: COOPER, EB: KATZ, NEA: DUBS

PARIS FOR USOECD

E.O. 11652: GDS
TAGS: EFIN, PK
SUBJECT: PAKISTAN'S REQUEST FOR DEPT RESCHEDULING AND THE
US ATTITUDE TOWARDS DEBT
REF: USMISSION GENEVA 03908, STATE 066871, STATE 067647

1. SUMMARY: SECRETARY GENERAL OF FINANCE KAZI HAS
TOLD US THAT THE ARRANGEMENTS FOR ADJUSTMENT OF TERMS
FOR EXISTING DEBT OF DEVELOPING COUNTRIES WORKED OUT AT
UNCTAD (REFTELS) WILL BE OF SOME HELP TO PAKISTAN.
MOST OF PAKISTAN'S DEBT, HOWEVER, IS NOT IDA AND IS NOT
AFFECTED. ACCORDINGLY, KAZI DOES NOT EXPECT PAKISTAN'S
DEBT PROBLEM TO BE SOLVED BY IT AND HE STILL INTENDS TO
DISCUSS BETTER RESOURCE TRANSFER AT THE AID TO PAKISTAN
CONSORTIUM MEETING IN JUNE. IN RECENT MONTHS
PAKISTAN'S EXTERNAL FINANCIAL POSITION HAS TAKEN
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A TURN FOR THE BETTER AND FOR NOW PAKISTAN IS
HAVING NO DIFFICULTY PAYING ITS BILLS. THE
IMPROVEMENT MAY ONLY BE TEMPORARY; IN A LONGER
PERSPECTIVE, PAKISTAN'S FINANCIAL SITUATION IS STILL
EXCEEDINGLY PRECARIOUS AND THERE IS A CONTINUING
NEED FOR SUBSTANTIAL RESOURCE INFLOWS. ALTHOUGH
PAKISTAN IS IN NO IMMEDIATE DANGER OF DEFAULT AND

THE QUESTION OF CONVENING A CREDITOR'S CLUB WOULD NOT SEEM TO ARISE AT THE MOMENT, WE THINK THAT PAKISTAN FITS THE SECOND SITUATION DESCRIBED IN PARA 6, ANNEX 1, OF GROUP B'S SUBMISSION TO THE UNCTAD ENTITLED: "DEBT SITUATION OF DEVELOPING COUNTRIES" (TD/AC.2/CRP-ADD.1), AND WE THINK THE US SHOULD SUGGEST AT THE JUNE AID CONSORTIUM MEETING PROCEDURES OUTLINED IN "REMEDIAL MEASURES TO DEAL WITH SITUATIONS OF LONGER TERM NATURE". (PARA 7 OF THE SAME DOCUMENT.) END SUMMARY.

2. THE EXTERNAL FINANCIAL SITUATION OF PAKISTAN HAS DEMONSTRABLY EASED IN THE PAST 5-6 MONTHS. BY FAR THE MAJOR CHANGE WHICH HAS LED TO AN IMPROVEMENT SINCE THE BOP FORECAST WE PREPARED SHORTLY BEFORE THE DECEMBER CONSORTIUM MEETING (ISLAMABAD 11328) HAS BEEN THE SPECTACULAR INCREASE IN EMIGRANT REMITTANCES. THEY WERE OFFICIALLY RECORDED AT LESS THAN \$600 MILLION IN PFY 76/77. IN OUR FORECAST WE PICKED \$750 MILLION FOR PFY 77/78 AS A SAFELY CONSERVATIVE ROUND NUMBER. (THE GOP FORECAST AT THE TIME WAS \$653 MILLION.) GOP FINANCIAL OFFICIALS, WHO HAVE BEEN VJRY CAUTIOUS ABOUT REMITTANCES, HAVE BEEN INCHING THE NUMBER UP EVER SINCE AND NOW EXPECT THEM TO BE \$1 BILLION THIS YEAR. MAINLY BECAUSE OF THIS CHANGE, WE HAVE UPDATED OUR FORECAST AND ARE CONFIDENTIAL

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SUBMITTING DETAILS BY SEPTTEL, BUT THE NET EFFECT OF THE EMIGRANT REMITTANCES AND SOME OTHER SMALLER CHANGES HAS BEEN TO REDUCE THE LIKELY UNCOVERED GAP TO ABOUT \$125 MILLION. THIS FIGURE INCLUDES THE SO FAR UNPAID \$118 MILLION OF DEBT SERVICE TO THE IRANIANS THIS YEAR. THE GAP VIRTUALLY DISAPPEARS IF THE IRANIANS ARE WILLING TO LET THE PAYMENT CONTINUE TO SLIDE. (SEE BELOW)

3. WHILE THE IMPROVEMENT IN PAKISTAN'S IMMEDIATE FINANCIAL SITUATION SHOULD INVLUENCE THE US AND OTHER DONORS AT THE JUNE CONSORTIUM MEETING, WHATEVER COURSE WE FOLLOW SHOULD ALSO TAKE INTO ACCOUNT SUCH FACTOR AS:

--PAKISTAN DOES HAVE A LARGE DEBT BURDEN WHICH ADDS TO ITS CONTINUED NEED FOR EXTERNAL RESOURCES.

--PAKISTAN IS CURRENTLY GOVERNED BY A MARTIAL LAW ADMINISTRATION WHICH IS NON-DOCTRINAIRE ON ECONOMIC SUBJECTS (APART FROM SOME DESIRE TO INTRODUCE ISLAMIC PRINCIPLES) AND GENERALLY DESIROUS OF DOING

CONSTRUCTIVE THINGS. THE MARTIAL LAW ADMINISTRATION IS, HOWEVER, WITHOUT A CLEAR CONCEPTION OF WHAT IT WANTS TO DO AND HOW IT WANTS TO DO IT AND LACKS BOTH THE POLITICAL SHREWDNESS AND THE MANDATE TO ENGAGE IN SWEEPING REFORMS EVEN IF IT KNEW--OR COULD BE TOLD--WHAT TO DO.

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O R 211145Z MAR 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC IMMEDIATE 6387
INFO AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 2 OF 2 ISLAMABAD 2838

DEPT FOR E: COOPER, EB: KATZ, NEA: DUBS

PARIS FOR USOECD

--THE US IS PRESENTLY CONSTRAINED FROM NEW BILATERAL AID COMMITMENTS TO PAKISTAN BY THE NUCLEAR REPROCESSING ISSUE AND THIS IS ALREADY AN IRRITANT IN RELATIONS.

--THE OPEC AID DONORS, MOST IMMEDIATELY IRAN THE MOST PRESSING CREDITOR, ARE WILLING TO EASE PAKISTAN'S FINANCIAL SITUATION, BUT HAVE MADE THIS CONDITIONAL ON SIMILAR TREATMENT BY OTHER DONORS

--PAKISTAN IS CURRENTLY DISCUSSING RELIEF WITH EASTERN BLOC CREDITORS.

--FROM WHAT WE GATHER HERE, THERE IS WIDESPREAD UNEASE AMONG OTHER AID DONORS--CONSORTIUM, OPEC, AND COMMUNIST COUNTRIES ALIKE--ABOUT PAKISTAN'S VORACIOUS APPETITE FOR CAPITAL COUPLED WITH

UNSATISFACTORY ECONOMIC PERFORMANCE, BUT NONETHELESS
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A RESIGNATION THAT SOMETHING WILL HAVE TO BE DONE TO
KEEP PAKISTAN AFLOAT. IF THE REPRESENTATIVESZBF
OTHER CONSORTIUM COUNTRIES HERE ARE ANY INDICATION
OF THEIR GOVERNMENT'S ATTITUDE, THEY LOOK UPON DEBT
RESCHEDULING AS DIFFICULT TO REFUSE AND AS THE
FASTEST AND EASIEST WAY TO GT THE JOB DONE.

4. FROM ALL OF THE ABOVE, WE THINK THAT THE US
SHOULD TELL THE PAKISTANIS, AND THEM PROMPTLY,
THAT:

--WE ARE PREPARED TO DISCUSS SYMPATHETICALLY THE
TOTALITY OF THEIR ECONOMIC SITUATION, EXTERNAL
AND INTERNAL, AT THE JUNE CONSORTIUM MEETING.

--WE HAVE NOTED THE MUCH BETTER-THAN-EXPECTED
PERFORMANCE OF EMIGRANT REMITTANCES AND SALUTARY
EFFECT THIS HAS HAD ON THEIR BALANCE OF PAYMENTS.

--NOW THAT EMIGRANT REMITTANCES HAVE PROVIDED A
RESPITE, WE WONDER IF PAKISTAN SHOULD NOT CONSIDER
ITSELF AS A COUNTRY WITH A CAPITAL INFLOW PROBLEM
OF A LONGER TERM NATURE AND IF IT SHOULD NOT NOW
WELCOME AN EXAMINATION OF ITS EXISTING SITUATION BY
THE IBRD OR ANOTHER APPROPRIATE MULTI-LATERAL DEVELOP-
MENT FINANCE INSTITUTION TO FORMULATE THE APPROPRIATE
COURSE OF ACTION FOR PAKISTAN AND AID DONORS. (THIS
IS THE COURSE SUGGESTED IN GROUP B'S "WISDOM" PAPER
(TD/AC.2/CRP.2-ADD.1).

5. THIS NON-ELECTED INTRIM GOVERNMENT WOULD HAVE A
PARTICULARLY DIFFICUTL TIME TO MAKE THE SORT OF DOMESTIC
ECONOMIC POLICY CHANGES THAT WOULD PESUMABLY BE
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IDENTIFIED AND DEMANDED BY DONORS TO ENSURE THE
EFFECTIVENESS OF AN INCREASE IN THE NET INFLOW OF
RESOURCES. HOPEFULLY, BY THE TIME SUCH A STUDY WOULD
BE COMPLETED, AND READY FOR DISCUSSION WITH THE GOP, THE
POLITICAL SITUATION HERE WOULD HAVE BECOME SOMEWHAT
CLEARER--WITH EITHER ELECTIONS AND A NEW GOVERNMENT OR
A DELIBERATE DECISION TO STAY WITH MARTIAL LAW RULE.
THIS WOULD AT LEAST PROVIDE AN OPPORTUNITY TO DEAL WITH

THE ISSUE AND WORK OUT A MUTUALLY-AGREED RESOURCE PACKAGE WITH A GOVERNMENT BETTER ABLE TO CARRY OUT THE STEPS IT TOO MUST TAKE.

6. IT IS IMPORTANT OF COURSE TO KEEP IN STEP WITH THE IRANIANS SO THAT THEY DO NOT PUSH PAKISTAN TO THE BRINK OF DEFAULT BY INSISTING ON BEING PAID ON SCHEDULE AND SO THAT THEY (AND OTHER OPEC DONORS) COULD TAKE COORDINATED ACTION WITH CONSORTIUM COUNTRIES.

7. WE THINK THE US SHOULD ALSO CONSULT WITH OTHER CONSORTIUM DONORS SO THAT WE DO NOT WIND UP IN AN ISOLATED POSITION.

8. UPDATED BOP FORECAST IN ISLAMABAD 2839.
HUMMEL

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Message Attributes

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